



**CONFIDENTIAL**

CONFIDENTIAL

50X1-HUM

Income taxes were eliminated for white- and blue-collar workers because the tax served no economic or political end. Problems which in the case of the remaining citizens are solved through the payment of income taxes either do not exist among white- and blue-collar workers, or can be more efficiently solved by other means. Thus, the problem of regulating the distribution of the national income, in the case of workers, is solved much better through a system of bonuses for work performed.

The system of progressive taxation on income was in opposition to the system of bonuses which was developed during the past 3 years. Bonuses for work are based on the principle of socialist distribution of national income, rewarding each according to his work. Progressive taxation, on the other hand, presumes that those workers who work harder must pay proportionately higher income taxes for their work. The bonus system, moreover, differentiated between the contribution of the working man according to the quantity and quality of work performed, while the taxation system tended toward the relative leveling of income.

The disharmony between the bonus and the tax system was partly moderated by various means, such as: freeing pay raises from taxation, freeing bonuses for extraordinary achievements in work, distinguishing for tax purposes between individual income and bonuses for exceeding quotas, lowering tax brackets, etc. All these measures were not enough. The contradiction could only be removed by eliminating income taxes.

Likewise, the problem of coordinating the purchasing power of white- and blue-collar workers with the supply of goods is no longer solved by means of income taxes, as with other citizens, but rather by means of the planned wage reserve. Thus a satisfactory, solid base for balancing the problem between demand and supply can be established without resorting to income taxes.

Income taxes no longer have any economic or political functions in regard to white- and blue-collar workers. These ends are served today by measures which are characteristic of socialism: an equitable system of bonuses, accurate planning, and the like.

The elimination of income taxes for white- and blue-collar workers has not resulted in increasing their standard of living by the total amount they ceased to pay in income taxes. From the revenues which they paid into the budget as income taxes and in contributions for social security (these contributions were eliminated at the same time as were income taxes), the state contributed about one-fourth, or 2,600,000,000 dinars, toward improving their standard of living. The remaining three-fourths will be entered in the budget as part of the state accumulation. Thus, the state budget this year provides for increasing the allocation for social security for white- and blue-collar workers by 1,600,000,000 dinars and for the children's bonus by 1,250,000,000 dinars. Thus, almost three-fourths of the contributions which the working class paid into the budget in the form of income taxes and contributions for social security returns to the working class in various ways.

- E N D -

- 2 -

CONFIDENTIAL

**CONFIDENTIAL**